HOUSING MARKET OUTLOOK
Calgary CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2009

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NEW HOME MARKET

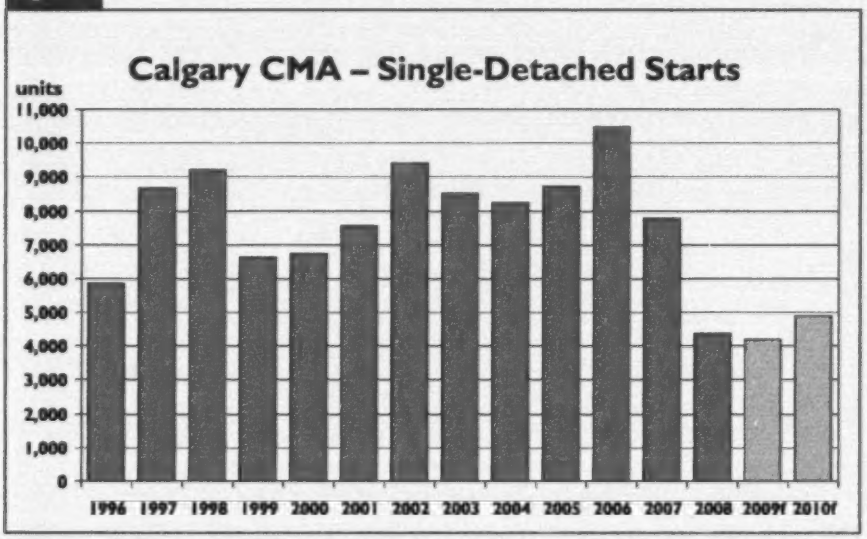
Total Housing Starts Expected to Rebound in 2010

[1]Total housing starts are on pace to decline 52 per cent in 2009, reaching 5,550 units. This would represent the lowest level of activity since 1991. A bulk of the reduction in total housing starts is stemming from the multi-family market, where inventory levels remain elevated. As economic and housing market conditions improve, home builders are forecast to increase production by 21 per cent to 6,700 units in 2010.

Single Starts Improve with Lowered Inventory

Single-detached starts have rapidly improved since the beginning of the

Figure 1



Source: CMHC, CMHC Forecast (f)

[1] The forecasts included in this document are based on information available as of October 1, 2009.

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year when builders cut production in response to lower sales and rising inventory. After the first half of the year, starts were down 33 per cent, though solid gains since June have lessened the decline. Despite the increased starts activity in recent months, this resurgence will not offset the lower production earlier in the year. Single-detached starts in 2009 are on pace to decline four per cent to 4,200 units compared with 4,387 units in 2008. As inventories have declined and sales have increased, new constructic of homes is expected to pick-up throughout the forecast period. Single-detached builders are anticipated to increase production by 17 per cent in 2010, with 4,900 units breaking ground.

Lower mortgage rates and builder incentives have supported new home sales, and there has been less competition from the resale market. The inventory of complete and unabsorbed units also peaked at the beginning of 2009 and has since been on the decline. Total supply, which is units in inventory and those under construction, has been reduced to a level not experienced since 2001. With a low level of supply and improved demand, building intentions and construction activity is on the rise. In June, July, and August, building permits were up on average by 59 per cent over the same period in 2008. Single starts in the third quarter have increased 45 per cent above the previous year, following 10 consecutive quarters of year-over-year declines. More spec homes are also breaking ground. At the beginning of 2009, less than five per cent of homes under construction were spec units. In August, however, spec homes under construction increased to over 12 per cent of total units underway. With economic conditions improving and inventories falling, builders are positioned to increase new construction throughout the forecast period.

New House Prices Stabilizing

The New Home Price Index (NHPI) has started to stabilize, after declining from its peak in the first quarter of 2008. In the first seven months of 2009, the NHPI was down on average of 7.7 per cent, compared to the same period a year earlier. A majority of the decline is attributed to the house component, as reduced construction activity has taken pressure off input costs such as labour and materials. Land costs are down slightly from a year ago, but for the most part lot prices have held firm. By the end of 2009, new home prices are anticipated to gain more ground and the NHPI will end the year down by an average of 6.9 per cent from the 2008 average level. In the face of higher starts, stability in new home prices is expected to improve into 2010 with the NHPI increasing two per cent.

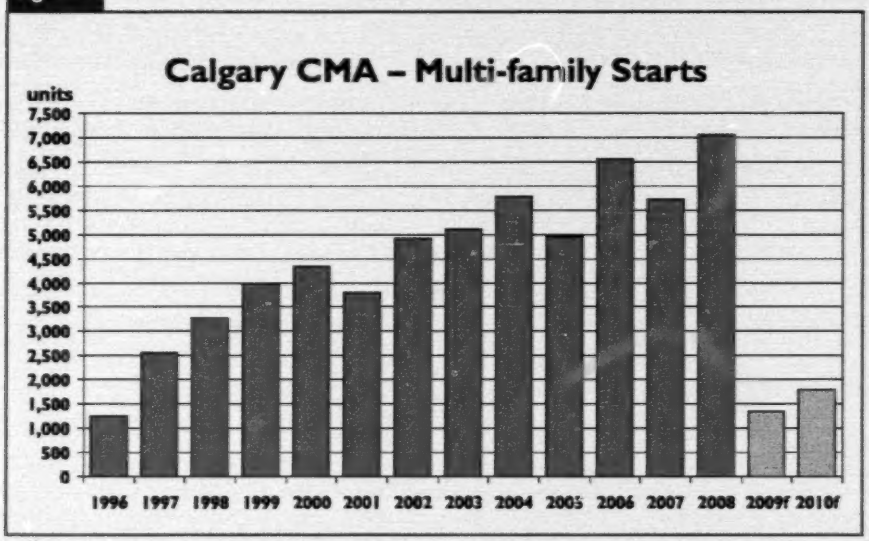
The monthly absorbed average price of a new home has declined since 2008 and appears to be leveling at around $535,000. The average price in August was $534,954 and in September was $537,225, down year-over-year by eight and ten per cent respectively. Readers should note that the absorbed price reflects units absorbed in a given month, which is not necessarily the month when the price was negotiated. The average absorbed price is forecast to fall from $581,800 in 2008 to $560,000 in 2009. With stronger demand conditions and more manageable inventory levels expected for the balance of 2009 and throughout 2010, the average absorbed price is anticipated to increase modestly. Despite the month-over-month gains projected for 2010, it will not be enough to push the yearly average above 2009 levels. In 2010, the average absorbed price will decline 1.4 per cent to $552,000.

Multi-Family Starts to Remain Low in Face of Heightened Condominium Supply

The increase in housing starts in recent months has been restricted to the single-detached market. After starting 7,051 multi-family units in 2008, representing the highest level of production since 1981, multi-family construction, which includes semi-detached, row and apartment units, has reported sharp declines thus far into the year. To the end of September, only 987 units broke ground, representing the lowest level of activity since 1996. In 2009, multi-family construction is on pace to decline 81 per cent from the previous year, reaching 1,350 units. Although economic conditions are expected to improve in 2010, production will remain below the 10-year average of 5,223 units. New construction for multi-family units is expected to see a modest lift in 2010 to 1,800 units, however still low by historic standards.

Heightened supply levels continue to discourage additional multi-family production. Much of the decline in

Figure 2



Source: CMHC, CMHC Forecast (f)

starts has been concentrated in the apartment segment where inventories have been rising in 2009. In September, the inventory of complete and unabsorbed apartment units was over seven times higher than the previous year, reaching 349 units, and has not been this elevated since August 2005. With apartment starts down 96 per cent to the end of September, this has allowed the number of units under construction to come down. However, with over 5,000 apartments still in the construction phase, inventories will continue to experience upward pressure as more units reach completion.

In addition to the number of apartment units under construction, there are still several projects around the beltline area that have been delayed and halted. Many of these frozen developments need to begin moving before builders significantly start any new major projects. This is confirmed by the low number of apartment building permits issued so far in 2009. In the first eight months of the year, permits for only 113 apartment units were issued, far below the 10-year average of 2,479 units. Weakness in the apartment segment will carry through into 2010, keeping multi-family construction below historical norms.

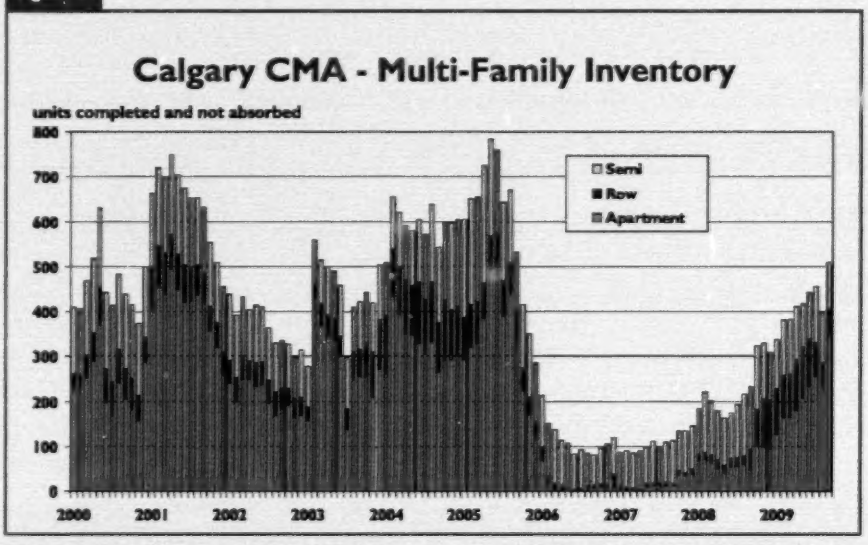
New construction of semi-detached and row units are anticipated to command a greater share of multi-family production in 2010 compared to previous years. Inventory levels in these two types of housing, especially in the semi-detached segment have been adjusting downward. At the end of September, there were 101 semi-detached units in inventory, down 27 per cent from the previous year. With new apartment construction anticipated to be slow in 2010, multi-family builders will focus their attention on segments of the market where inventories are not as high, such as semi-detached and row housing.

RESALE MARKET

2009 Sales Similar to 2008, Improvement in 2010

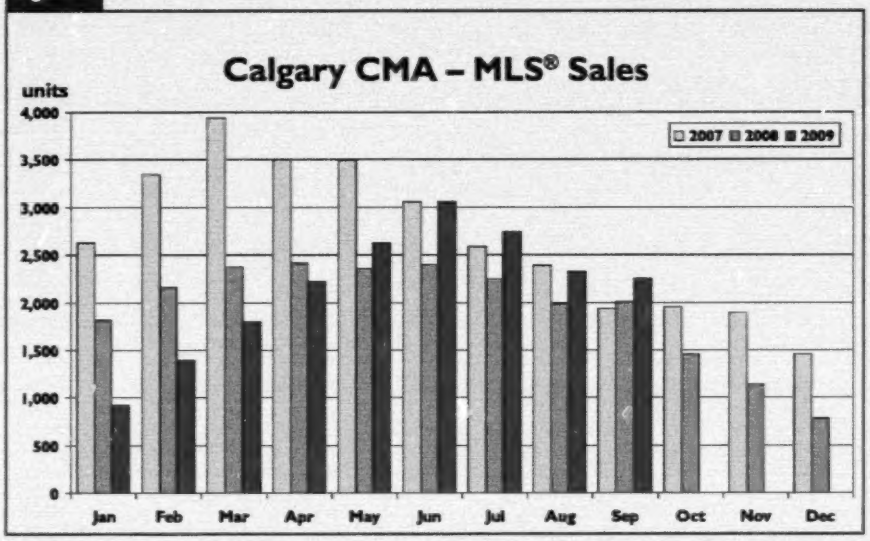
Sales in the first three months opened the year with the slowest start since 1996 as buyers responded to the economic uncertainty. At the end of the first quarter, residential MLS® transactions totalled 4,117 units, down 35 per cent from the previous year. Sales in Calgary have shown remarkable rebound since the early

Figure 3



Source: CMHC

Figure 4



Source: CREA

months of 2009. There were over 10,000 sales from June to September for only the third time in history, nearly matching the level of activity experienced during the peak years of 2005 and 2006. With the resurgence in recent activity, sales in 2009 are on pace to inch above 2008 levels to 23,150 transactions. The pace of sales in the last couple of month is not expected to continue into 2010, but increase at a more modest rate. CMHC's forecast for 2010 is calling for a 10 per cent rise in MLS® sales to 25,500 units.

The recent gain in sales can not necessarily be attributed to a sharp economic and employment rebound. Rather, low interest rates and pent-up demand from prospective buyers that was built up during the end of 2008 and early 2009 has contributed to the rise. Favourable mortgage rates and earlier price reductions have helped bring monthly carrying costs down and provided an opportunity for home ownership. In the first eight months of the year, the monthly carrying cost for the average home was down by over 19 per cent compared to 2008.

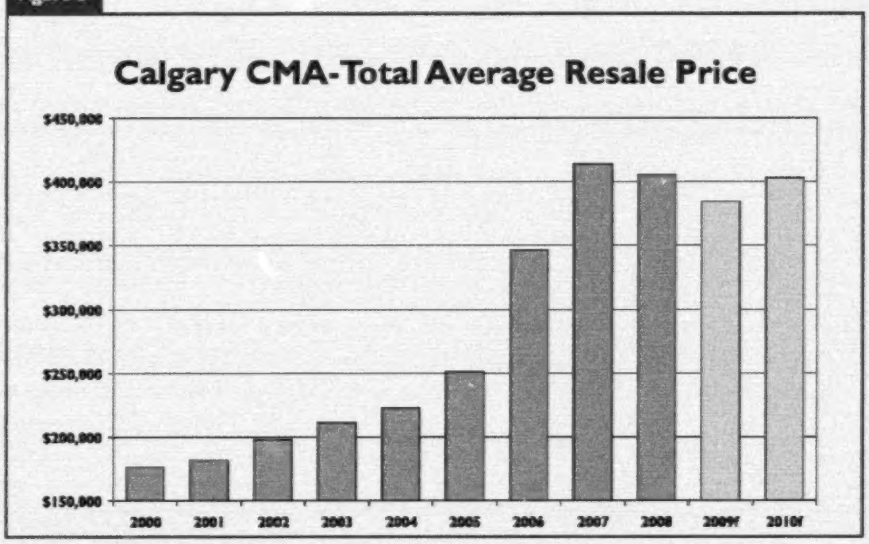
Many buyers also put their purchase decisions on hold until there was evidence that prices had bottomed. Prices were declining at the end of 2008 and into 2009, reaching a 25-month low of $362,143 in January 2009. Since then, prices have been rising, providing buyers more comfort in knowing that their purchase will appreciate in value.

Compared to recent months, the pace of gain in sales will be more modest in 2010. Sales will be less driven by low mortgage rates and recent affordability improvements as carrying costs are expected to inch upward going forward. However, activity will fall more inline with the primary drivers of housing demand, notably employment and income growth as well as household formation. With the expectation that employment will stabilize in 2010, buyers will continue to be attracted to the market.

Average Price to Rebound in 2010

Strong improvements in sales and subsequent declines in inventory have improved the demand-supply balance, putting modest pressure on the average price. Since January, the average price increased over $30,000 reaching $394,835 in September. Although the average monthly price has been trending upwards, it has remained below 2008 levels for most of the year. September was the first time since March 2008 when the

Figure 5

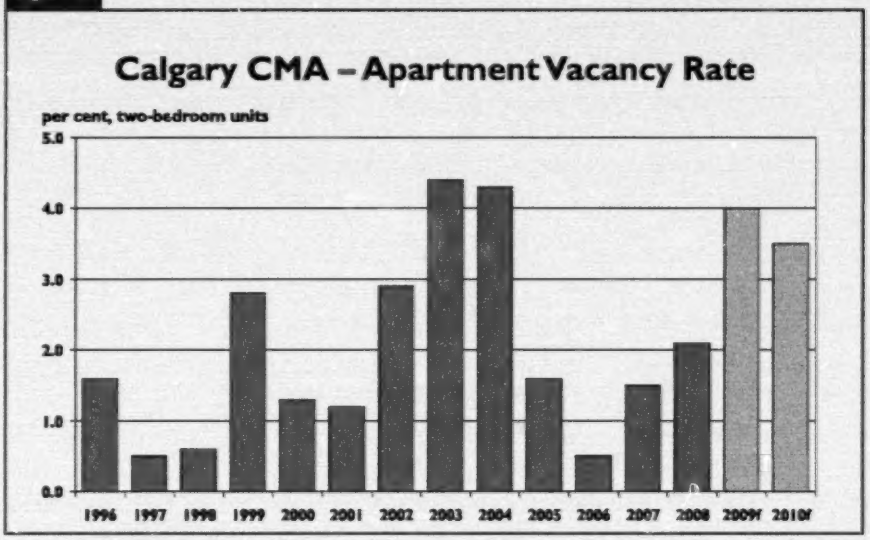


Source: CREB, CMHC forecast (f)

monthly average price was up on a year-over-year basis. Despite the rise in average price, the year-over-year declines experienced for most of the year will prevent it from exceeding 2008 levels on an annual basis. The average MLS® price is on track to decline five per cent from $405,267 in 2008 to $384,500 in 2009. The recent upward trend in price is anticipated to carry through into 2010, leading to a five per cent increase with the average price reaching $403,000.

During the early months of 2009, the resale market was working its way back toward balanced conditions, after an extended period of a buyers market. At the end of 2008, the duration-of-supply had reached its highest level since 1983 at over 10 months. Supply levels remained elevated in the first quarter of 2009 before rapidly improving in the second and third quarters, averaging three months-of-supply. Along with the rise in sales, declining active listings have also helped the market move from buyers' to balanced conditions. The number of new listings has been down on a year-over-year basis since the start of 2009. In the first two quarters of 2009, new listings were lower on average by over 30 per cent from the previous year, followed by a 20 per cent year-over-year decline in the third quarter. Sellers have been more hesitant listing their homes for sale as prices had been down from a year earlier. Fewer new listings have helped reduce the number of active listings to 7,015 units by September, representing a decline of 35 per cent compared to September 2008. This, combined with higher sales in 2010, should ensure modest price improvements moving forward.

Figure 6



Source: CMHC, CMHC Forecast (f)

RENTAL MARKET

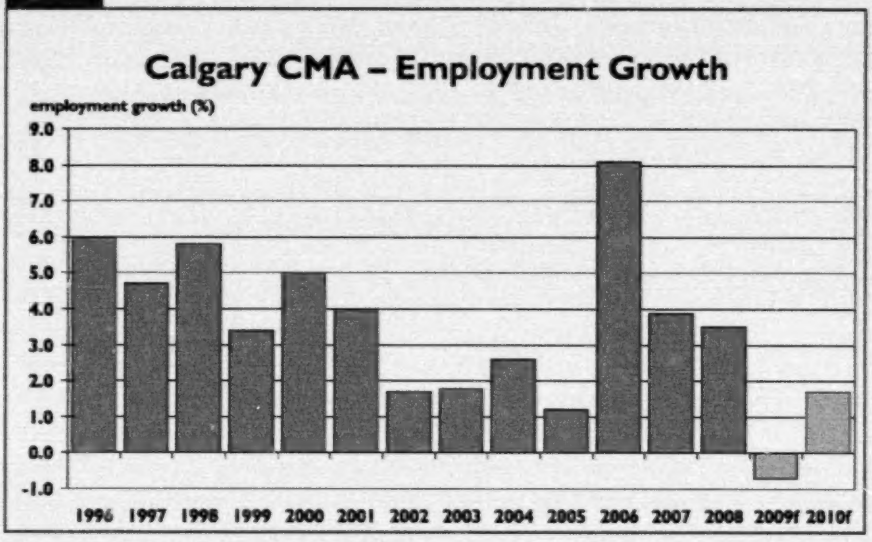
Average Rent to Decline in 2009

Rental housing demand in Calgary moderated in 2009. Job losses, especially in the part-time sector, as well as competition from the secondary rental market are contributing to higher vacancies in 2009. In addition, affordability improvements have allowed some rental households to move into home ownership. The vacancy rate in Calgary is forecast to increase to four per cent in October 2009, up from 2.1 per cent in October 2008. In 2010, demand for rental accommodations is expected to strengthen as the economy creates jobs and attracts migrants to the region, pushing the vacancy rate down slightly to 3.5 per cent.

In 2009, the monthly cost differential between renting and owning has narrowed, helping tenants move into homeownership. Since the fall of 2007, the differential between average monthly rent and mortgage payment (principle and interest) declined from nearly $1,000 per month to just over $300 per month in the spring of 2009. The average monthly carrying cost for a condominium in 2009, amortized for 25 years with a 10 per cent down payment, has been under $1,600 per month, down by as much as 25 per cent from the previous year. A combination of lower mortgage rates and the decline in prices are largely responsible for the improvement in affordability. The cost differential was at its tightest in the spring but has since widened as condominium prices and mortgage rates have edged upward. As this gap increases, it will help shore-up demand for rentals and reduce the incentive to move to home ownership.

Rising vacancies have softened rental rates in 2009. The average rent for a two-bedroom unit is forecast to decline $73 dollars per month to

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

$1,075 in October 2009. Tenants this year will have more options in both the primary and secondary rental markets. As a result, property owners will offer various incentives and rental rate reductions to fill their vacant units and keep their existing tenants. Upward pressure on monthly rents is not anticipated to return until 2010 when the economy expands, employment grows, and vacancies moderate. The average rent for a two-bedroom apartment is forecast to increase to $1,100 in October 2010.

ECONOMIC OVERVIEW

Employment Growth Expected to Return in 2010

The slowdown in the economy, which began in the latter half of 2008, has constrained job growth and will lead to a decline in annual employment in 2009 for the first time in 17 years. Actual employment is forecast to fall by 0.7 per cent in 2009. Weakness in the energy sector has led to a number of job losses in the beginning of the year. Several oil sands projects were delayed or cancelled as many were not considered economically feasible due to lower oil prices. Drilling activity in the natural gas sector has also been slow, as lower prices and near record inventory levels have kept many rigs on the sidelines.

With the economy in Alberta being heavily reliant on the energy sector, many other industries have been affected. Construction activity in both the residential and non-residential sectors has slowed, reducing demand for trades and pushing the unemployment rate in this sector to over 10 per cent as recently as April. Home builders made reductions in the number of homes started and investments in the commercial and industrial sectors fell back in light of rising vacancies and reduced demand for manufactured goods. Despite the moderation at the start of the year, economic activity is anticipated to improve in the latter half of 2009 and into 2010.

The economy is in the process of recovering, and jobs will soon start to return to the market. The price for oil has increased this fall by over 80 per cent since dipping below $40 per barrel in February. Investment in oil sands development is slowly returning with the announcement of a few projects moving forward, and the stock market has also posted impressive gains since the first quarter of the year. A majority of the job losses in Calgary occurred in the beginning of the year, but since then, employment levels on a seasonally adjusted basis have been stabilizing. From May to August, over 32,000 full-time jobs were created, however these came at the expense of 14,000 part-time jobs. Although a portion of these job gains were due to seasonal factors, the increase in actual full-time employment has helped drive sales in the new and resale home markets.

Construction activity in the residential sector has picked up as builders have been busy starting new homes. Investment in the government and institutional sectors has also risen to help push the economy forward. To the end of August, the value of Calgary building permits in these two sectors was up 85 per cent compared to 2008. As the construction sector is beginning to find its footing, the construction unemployment rate has declined since the spring when it

surpassed 10 per cent.. The economic recovery is expected to continue into 2010, with employment forecast to increase 1.7 per cent over 2009 average levels.

Due to the slow down in the economy, net migration in 2009 is forecast to moderate by 36 per cent to 16,000 people. Despite the decline, the level of net migration will still be comparable to historical averages and support demand for housing. The uptick in employment opportunities and persistent growth in wages will continue to attract migrants to the Calgary region. In 2010, net migration is forecast to increase 16 per cent to 18,500.

MORTGAGE RATE OUTLOOK

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Forecast Summary
Calgary CMA
Fall 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	33,027	32,176	23,136	23,150	0.1	25,500	10.2
MLS® New Listings	44,725	54,202	56,187	41,500	-26.1	45,000	8.4
MLS® Average Price ($)	346,675	414,066	405,267	384,500	-5.1	403,000	4.8
New Home Market							
Starts:							
Single-Detached	10,482	7,777	4,387	4,200	-4.3	4,900	16.7
Multiples	6,564	5,728	7,051	1,350	-80.9	1,800	33.3
Starts - Total	17,046	13,505	11,438	5,550	-51.5	6,700	20.7
Average Price ($):							
Single-Detached	353,662	474,511	581,800	560,000	-3.7	552,000	-1.4
Median Price ($):							
Single-Detached	310,711	417,947	487,141	459,000	-5.8	453,000	-1.3
New Housing Price Index (% chg.)	43.6	16.2	0.6	-6.9	-	2.0	-
Rental Market							
October Vacancy Rate (%)	0.5	1.5	2.1	4.0	-	3.5	-
Two-bedroom Average Rent (October) ($)	960	1,089	1,148	1,075	-	1,100	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level	655,100	680,600	704,100	699,500	-0.7	711,100	1.7
Employment Growth (%)	8.1	3.9	3.5	-0.7	-	1.7	-
Unemployment rate (%)	3.2	3.2	3.5	6.6	-	6.7	-
Net Migration [1]	22,114	16,693	25,000	16,000	-36.0	18,500	15.6

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2008 migration data is forecasted
The forecasts included in this document are based on information available as of October 1, 2009.

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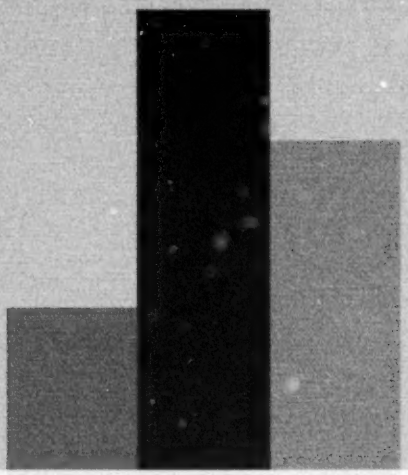

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